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April 9, 2018

**VIA E FILING**

Jocelyn D. Boyd, Esquire  
Chief Clerk and Administrator  
South Carolina Public Service Commission  
101 Executive Center Drive  
Columbia, SC 29210

RE: Application of Synergy Utilities, LP for Adjustment of Rates and Charges  
and Modifications to Certain Terms and Conditions for the Provision of Sewer  
Service  
Docket No. 2017-28-S

Dear Ms. Boyd:

Enclosed please find for filing the Rebuttal Testimony of Keith G. Parnell and Certificate of Service in connection with the above-referenced matter. By copy of this letter I am serving all parties of record.

If you have any questions, or if I may provide you with any additional information, please do not hesitate to contact me.

Sincerely,

Elliott & Elliott, P.A.

Scott Elliott

SE/lbk

Enclosures

cc: Jeffrey M. Nelson, Esquire (w/encl.)  
Florence P. Belser, Esquire (w/encl.)  
Andrew M. Bateman, Esquire (w/encl.)

**THE PUBLIC SERVICE COMMISSION  
OF SOUTH CAROLINA**

**DOCKET NO. 2017-28-S**

In the Matter of	)	
	)	
Application of Synergy Utilities, LP for	)	<b>REBUTTAL TESTIMONY</b>
Adjustment of Rates and Charges and	)	<b>OF</b>
Modifications to Certain Terms and Conditions	)	<b>KEITH G. PARNELL</b>
for the Provision of Sewer Service	)	

**Q. WHICH OF THE ORS's PROPOSED ADJUSTMENTS IS THE COMPANY  
CONTESTING IN THIS CASE?**

**A.** The Company is contesting the following proposed recommended changes to the tariff  
and adjustments proposed by the Office of Regulatory Staff (ORS):

- 1) To establish a rate for sludge disposal service;
- 2) To amortize current and unamortized rate case expenses over a three-year period;
- and
- (3) To adjust miscellaneous revenues for ORS's recalculation of the Company's  
proposed rate increase.

Synergy either assents to the remaining adjustments or has decided not to contest them in this  
case. In addition, Synergy will accept the rate design recommended by the ORS.

**Q. IN PARTICULAR, PLEASE STATE SYNERGY'S POSITION ON THE ORS  
PROPOSED RATE DESIGN.**

**A.** The ORS proposes to establish a single-tariff rate design for Synergy. Mr. Schellinger's  
proposal, found in his testimony at page 13, line 9 through page 14, line 6, merges Synergy's  
Territory 1 and Territory 2 rates into a single tariff rate structure and serves the interests of both

1 our customers and the utility. Synergy accepts the proposed rate design and requests that the  
2 Commission approve the rates and rate design proposed by the ORS.

3 **Q. THE ORS RECOMENDS THAT SYNERGY ESTABLISH A RATE FOR SLUDGE**  
4 **DISPOSAL SERVICE. DO YOU AGREE?**

5 **A.** No. Synergy provides sludge hauling and sludge disposal services for several public and  
6 private entities in the Midlands such as the Town of Ridgeway and Water Systems, Inc. However,  
7 Synergy does not provide this service to its retail customers. Synergy's rate for service is set by  
8 the market and our retail customers benefit from the additional revenues. Requiring Synergy to  
9 set a tariff rate is not in its ratepayers' interest.

10 **Q. HAS THE ORS INCLUDED ALL RECOVERABLE RATE CASE EXPENSES IN**  
11 **ITS DIRECT TESTIMONY?**

12 **A.** No, the ORS stated the current rate case expense is \$84,375.65, however, the updated  
13 current rate case expense as of April 9, 2018 is \$112,068.15. The Commission customarily  
14 authorizes recovery of audited rate case expenses incurred through the hearing. As in past cases,  
15 Synergy will update these expenses at the conclusion of the hearing and make them available to  
16 ORS for audit and report to the Commission.

17 **Q. HOW DOES SYNERGY INTEND TO GROSS-UP CIAC?**

18 **A.** The Company will gross-up cash service availability charges and property contributions in  
19 aid of construction in order to recover the federal and state corporate income taxes associated with  
20 those contributions. Using the 5.00% South Carolina State tax rate and 21.00% Federal tax rate  
21 would result in \$33.24 in taxes to be paid for every \$100.00 of CIAC. Synergy's sewer connection  
22 fee is \$500.00 per SFE. Thus, the impact of Tax Cut and Jobs Act of 2017 on CIAC will require  
23 payment of \$166.20 per SFE at the time of connection. Synergy believes that this cost should be

borne by the customer responsible for the cost. Synergy proposes to require its customers who connect to its water and sewer system to pay these costs in addition to the sewer connection fee.

**Q. DOES THE ORS PROPOSAL FOR AMORTIZATION OF EXCESS TAX COLLECTION RAISE CONCERNS?**

A. Yes, Adjustment 1G in combination with Adjustment 20 would result in impermissible retroactive ratemaking. The ORS estimates an excess tax collection from January 1, 2018 through May 31, 2018 of \$33,975 from customers due to current rates having been calculated using a 35% federal tax rate. ORS proposes to amortize \$33,975 over a three year period and adjust Synergy's revenue \$11,325 per year. ORS is essentially asking the Commission to give a credit to Synergy's customers for amounts properly collected from previously approved rates. Ratemaking is prospective. The rates charged by DSI and Midlands were set in 2015 and 2005, respectively. To reduce these rates many years later is impermissible retroactive ratemaking and the Commission should reject the adjustments.

**Q. WHAT OTHER CONCERNS DO YOU HAVE CONCERNING THE ORS ADJUSTMENTS?**

A. Synergy incurred considerable costs to accomplish this merger and views the merger costs as a regulatory asset that will provide future benefits to the ratepayers. As of April 2, 2018, the ORS has disallowed audited merger costs of \$30,991.33. An updated amount of merger-related costs as of April 9, 2018 is \$41,073.33. Synergy requests that these costs be recoverable through a three year amortization period.

**Q. HAS THE COMMISSION ADDRESSED THE BENEFITS OF A MERGER OF DSI AND ITS AFFILIATED COMPANIES, MIDLANDS AND BUSH RIVER UTILITIES?**

1 A. At the urging of the Commission, Synergy Utilities consolidated the utility operations of  
2 Midlands Utility, Inc. and Development Services, Inc. This merger will benefit the rate payers in  
3 that Synergy will realize lower expenses from economies of scale, one performance bond  
4 requirement, and, most importantly, decreased future rate case expenditures. We have been  
5 working to merge DSI, Midlands and the former Bush River Utilities since 2008. In Order No.  
6 2008-328 approving the merger of DSI and Bush River Utilities, this Commission held, at p. 3:

7 Indeed, this Commission has been encouraging these utilities to explore the benefits  
8 of consolidation since 1996. *See, e.g.*, Commission Order No. 96-44, p. 17;  
9 Commission Order No. 2005-42, p. 3. The transaction will streamline and  
10 eliminate inefficiencies from the business and administrative operations of DSI and  
11 BRU. Specifically, the Companies anticipate that this transaction will allow them  
12 to realize operational benefits. Such benefits are likely to result from service  
13 integration, reduced overhead, and administrative costs, and other sources. These  
14 efficiencies will cause the surviving DSI to continue to provide high quality and  
15 fair cost sewer utility services to all customers in the territories served.  
16

17 **Q. HAVE THE CUSTOMERS OF DSI AND BUSH RIVER UTILITES BENEFITED**  
18 **FROM THE MERGER OF THESE TWO UTILITIES?**

19 A. I believe so. First and foremost, the former Bush River Utilities customers do not have to  
20 bear the entire burden of regulatory expenses. As the Commission will note, DSI filed for rate  
21 relief in 2014 and the cost were spread among both the DSI and former Bush River Utilities'  
22 customer base. In addition, after the merger, DSI alone was required to provide a performance  
23 bond. I also think the two companies have enjoyed other economies of scale. The former  
24 customers of DSI and Midlands will enjoy the same benefits. The Synergy merger was, as found  
25 by this Commission in Order No. 2017-49, in the public interest. In Order No. 2017-49 the  
26 Commission found:

27 The establishment of Synergy resulting from the transfer of utility assets from DSI  
28 and MUI described herein is in the public interest. DSI and MUI customers will  
29 benefit from centralized operations, which will provide increased efficiencies for  
30 the company in dealing with vendors, contractors, and regulatory bodies.

1    **Q.     DOES THE ORS DISALLOWANCE RAISE OTHER QUESTIONS?**

2    **A.**     Yes, for instance, Synergy incurred approximately \$10,000 in legal expenses by its real  
3    estate attorney who closed the real and personal property transfer from DSI and Midlands to  
4    Synergy. However, for this fee, he was able to close a line of credit which enabled Synergy to  
5    purchase a letter of credit which serves as its performance bond of the merged entity. Both services  
6    benefited the ratepayers. Both should be recovered in rates. I would urge the Commission to  
7    allow Synergy to recover its merger costs in rates amortized over a three year period just as the  
8    rate case expenses are recovered.

9    **Q.     DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

10   **A.**     Yes. I would like to thank the Commission for hearing us out.

## CERTIFICATE OF SERVICE

The undersigned employee of Elliott & Elliott, P. A. does hereby certify that (s)he has served below listed parties with a copy of the pleading(s) indicated below by mailing a copy of same to them in the United States mail, by regular mail, with sufficient postage affixed thereto and return address clearly marked on the date indicate below:

RE: Application of Synergy Utilities, LP for Adjustment of Rates and Charges and Modifications to Certain Terms and Conditions for the Provision of Sewer Service

Docket No.: 2017-28-S

PLEADING: REBUTTAL TESTIMONY OF KEITH G. PARNELL

PARTIES SERVED: Jeffrey M. Nelson, Esquire  
Florence P. Belser, Esquire  
Andrew M. Bateman, Esquire  
Office of Regulatory Staff  
1401 Main Street, Suite 900  
Columbia, SC 29201

This 9th day of April, 2018.



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